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In opposition to Raised Bill No. 807
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Senator Daily, Representative Staples and members of the Finance Revenue and Bonding Committee. My name is Harry Im and I work as State Tax Counsel for United Technologies Corporation.

United Technologies Corporation is a leader in the aerospace, commercial building and alternative energy industries, employing about 28,000 people in Connecticut. All of our major businesses are headquartered in Connecticut, with significant operations in Cheshire, East Hartford, Farmington, Hartford, Middletown, South Windsor, Stratford and Windsor Locks.

I would like to thank the Co-Chairs and members of the Finance Committee in allowing me to submit this testimony in ***opposition to*** **Raised Bill No. 807 – An Act Concerning Combined Reporting For Purposes of the Corporation Business Tax**.

I urge you to oppose this measure because it represents a drastic overhaul of the Connecticut Corporation Business Tax. Such significant, permanent change done without far greater analysis would bring long-term fiscal and economic uncertainty. This would upset the settled expectations encouraged by the current tax system and make it nearly impossible for businesses to conduct long-term planning for in-state investments. Any tax changes should be for only a defined period of time, and limited to those needed to help bring the State through the current crisis.

This bill enacts a form of unitary combined reporting. In short, unitary combined reporting is not necessarily what its proponents have long asserted. Unitary reporting would be an unnecessary departure from Connecticut's current tax structure:

- *Connecticut tax law already provides for protection from perceived tax abuses* – Unitary's proponents assert that its enactment will prevent many tax abuses which are currently beyond the tax law or reach of the Department of Revenue Services. However, Connecticut law already provides numerous statutory protections against intercompany transactions that improperly avoid corporate tax.[1] In addition, the DRS currently enjoys broad discretionary authority to eliminate the effects of abusive tax planning;[2]

- *Uncertainty for the State and taxpayers* – Unitary taxation comes in many forms with little uniformity among other states with unitary taxation. In addition, unitary taxation inherently involves many complex technical issues and taxpayer-specific factual determinations. The heavily fact dependent nature of such unitary analyses will make it nearly impossible for the State to accurately calculate the revenue impact of unitary taxation. In fact, the State may experience a revenue decrease as taxpayers initially file in the most beneficial interpretation of law and facts. All of this uncertainty also prevents taxpayers from accurately forecasting their tax liability with any certainty;

- *Increased administrative burden for the State and taxpayers* – All of the technical complexity and uncertainty noted above result in greatly increased administrative and compliance burdens. This is particularly burdensome to smaller businesses without large in-house tax departments experienced in unitary matters. The additional result in other states already using a form of unitary taxation is a ***much*** higher incidence of corporate tax litigation than Connecticut currently experiences under its present tax.

In closing, as the federal government and many other states have publicly asserted, now is **not** the time to raise tax burdens on employers and investment. During the last recession, certain policies adopted by the State inhibited its recovery and prolonged the downturn. Any legislation crafted today must be done to not simply address the current fiscal need, but to also preserve Connecticut-based jobs.

Thank you very much for your time and consideration.

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[1] Conn.Gen.Stat. Sec.s 12-218c (disallowance of intercompany intangible expenses including royalties, licenses and similar expenses) & 12-218d (disallowance of intercompany interest expenses).

[2] Conn.Gen.Stat. Sec. 12-226a (broad discretionary authority for the Commissioner of Revenue Services to adjust any taxpayer's transactions that have the effect of improperly or inaccurately reflecting its income or expenses).